Taxation in Africa since colonial times

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1. Introduction

Taxation is the primary way governments raise the revenue needed to fund public goods and services such as health care, education, and infrastructure, and to maintain law and order. African countries raise very low tax revenues today and lag behind other regions, also compared to other developing regions such as South Asia, Southeast Asia and Latin America. It is expected that low-income countries raise low absolute amounts of tax revenues compared to rich countries, but the issue is that African countries also raise a smaller proportion of revenue as shares of their incomes than other regions. The Gross Domestic Product (GDP) shows the monetary value of the national output of goods and services each year, and it is usually treated as a reasonable proxy for the tax base of each country. Since the 1980s, Africa's average tax to GDP share has barely reached 15 percent, while it is around 21 percent in Latin American countries and above 34 percent in high-income countries. Policy and research debates continue to seek an understanding of why African governments perform relatively poorly in raising taxes.

Researchers have offered various reasons for Africa's persistent low fiscal capacity, and this chapter will cover some of the major issues. One of them is that almost all African countries were previously colonised, and the colonial era is important because it was a time in which many main taxes were introduced, such as income taxes. Given that post-colonial states were built on the remnants of colonial states, colonialism created conditions that shaped long-run fiscal capacity building in Africa. Hence, unpacking what colonial states taxed or did not tax and the socio-economic conditions that shaped tax decisions is important. In addition, we should trace what taxes introduced during the colonial times were bequeathed to the post-colonial states. This tracing of continuity and change in types of taxes and motivation of who and what was taxed provides a window into understanding state formation in Africa.

The chapter is organised as follows. Section two delves into some of the basic principles of taxation and its major types. Section three discusses colonialism and taxation, highlighting how taxation in the colonial territories resulted from developments in the metropoles and local constraints that shaped what was taxed. This section also briefly highlights general theories of fiscal capacity building, distilled from Western experiences, including their limitations in the colonised regions where local conditions dictated adaptions and tax innovations that suited the logic of colonial rule.

Section four addresses decolonisation in Africa and its implications for taxation before discussing post-colonial taxation. Section five concludes with some key challenges that continue to undermine African tax systems.

2. Principles and categories of taxation

The wealth generated by individuals and firms as they produce, trade and consumer goods and services constitutes the tax base. The more it grows, the greater the government's potential to raise taxes. However, developing the capacity to tax, also known as fiscal capacity, depends not only on a thriving economy but many other administrative and political factors that can influence tax collection. The most cited is the condition of the state-society relationship. It implies that states require the know-how, administrative capacity, and ability to convince taxpayers of the importance of paying taxes. This means that the state also requires a minimum degree of legitimacy if it is not to rely exclusively on coercion. For this reason, taxation or fiscal policies are often carefully enacted, yielding varying degrees of success in different countries.

Four principles of taxation have become widely accepted for raising maximum revenue in a fair, equitable, and efficient manner. 1) *Revenue-yielding principle*: Countries need to impose taxes that raise the maximum possible revenues in each tax base. 2) *Equity principle*: States should treat taxpayers equally. People with similar incomes should pay equal taxes (horizontal equity), while those with higher incomes should pay more taxes (vertical equity). 3) *Efficiency principle*: Taxes should reduce distortions in economic decisions or should not discourage people from doing business. This guards against so-called 'punitive tax rates', meaning tax rates that are so high that they may push businesses to stop producing. 4) *Simplicity principle*: Taxes should not be administratively burdensome or costly for taxpayers and tax authorities. During colonial times, administrations did not necessarily adhere to these principles. This chapter will, for example, show how equity or fairness were not always tenets of colonial taxation.

Figure 1 provides an overview of the variety of possible sources of government revenue, including a distinction between tax and non-tax sources. The figure thus provides a menu of tax instruments that have become dominant in Africa and the rest of the world for revenue collection. When governments can raise money from non-tax sources, they often cut down on efforts to tax. This is usually the case in countries with valuable natural resources, such as oil-rich Nigeria and Angola.

Figure 1 is read from the left (full aggregates) to the granular tax types on the right. The third column from the left shows that taxation is usually the biggest source of government revenues and is collected directly and indirectly (column 4) from each nation's tax base. Direct taxes are paid directly to the tax authorities by companies and individuals. For instance, all employed people normally contribute pay-as-you-earn (PAYE) tax directly deducted from their salaries. In many countries, it is progressive so that you pay more taxes if you earn more, and this is consistent with the equity principle discussed above. In South Africa, for example, people earning up to R226,000

pay 18 percent per year in taxes, while those earning from R817,000 to R1,700,000 must pay 41 percent in taxes. Because these taxes appear on the payslip, they reduce what each person could have taken home. They are, however, difficult to collect if people do not have formal employment, which is the case for many Africans today and even more so historically.

Figure 1: Modern tax and non-tax revenue classification

- Total Government Revenue
  - Total Government Revenue Excluding Grants
    - Tax revenue
      - Direct taxes
        - Taxes on incomes, profits & capital gains
          - Taxes on individuals
          - Taxes on corporations
        - Property taxes
          - Taxes on land
      - Indirect taxes
        - Taxes on goods and services
          - Sales tax/VAT
          - Excises
        - Taxes on international trade
          - Import taxes
          - Export taxes
        - Other taxes
    - Non-tax revenue
    - Social contributions
  - Grants

Meanwhile, indirect taxes are levied on goods and services, including on sales and consumption and they are mostly collected by intermediaries in value chains, such as retailers, on behalf of governments. Examples of such taxes are sales taxes, trade taxes (i.e., import and export taxes), and value-added taxes (VAT), which have become a dominant revenue earners in Africa and across the world. VAT is collected by manufacturers, wholesalers and retailers after adding value to products or services. For instance, millers collect VAT when they sell flour to bakeries, and bakers collect VAT on final products such as bread and cakes. It is a percentage of a product's or service's monetary value and in Africa, it ranges from 7 percent to 20 percent. For example, at 14 percent, a product or service worth R100 attracts R14 in VAT, and the consumer pays a final price

of R114, while an expensive R1,000 000 car attracts a VAT of R140 000, so the customer pays R1,140 000. More VAT is collected as value is added to the product in its value chain. Its importance comes from the fact that it is a consumption tax that is collected when people consume goods and services, which everyone does (i.e., it is a broad-based tax).

With a small population of white settlers, growth in colonial taxation in most cases had to come through the taxation of the African population and their means of economic production. Table 1 shows the compendium of taxes collected during colonial times. Of all the hard-to-collect direct taxes, the *hut tax* was regarded as the most important innovation in native taxation. It was charged on every hut found at an African homestead. It was first introduced in the Natal Colony in 1849 and grew to contribute 75 percent of all Natal revenues. In polygamous societies, a man with many wives had several huts and paid more in hut taxes. Other colonies also adopted the hut tax, for example, Nyasaland (Malawi) in 1891, and Gambia, Kenya, and Southern Rhodesia (Zimbabwe) followed in the late 1890s. Not all adult males had huts and therefore an alternative *poll or head tax*, a direct tax on every adult male, also became essential. Meanwhile, because of challenges to monitoring and assessing taxpayer incomes, direct taxes such as *income tax* remained limited to a few countries such as South Africa and Southern and Northern Rhodesia (Zambia).

With the challenges of collecting direct taxes, the most feasible way of collecting adequate tax revenue was to rely on indirect taxes such as trade taxes (import and export duties) and an array of taxes, duties, and fees (see Table 1).

Table 1: Colonial tax and non-tax revenue sources

Direct taxes	Indirect taxes		Non-tax revenue
	Internal	**External**	
Hut tax	Excise duties	Import duties	Property and land sales
Poll/ Head tax	Transfer duties	Export duties	Office fees
Land quitrent	Stamp duty		Fines and forfeitures
Tithes on grain and wine	Auction duties		Rent
Income tax	Mining licences fees		Grants
Zekat	Banknote duty		*State-owned entities:*
	Inheritance tax		Railways
	Invisible taxes:		Postal
	Corvée labour		Telegraphs
	Prison labour		

To the colonial administrations, taxation also served other purposes, such as the "civilisation" of Africans by imposing metropolitan customs and cultural values. The aim was to turn Africans into tax-paying and law-abiding citizens like they perceived the European settlers to be. With colonial subjugation, this was also a practical way of showing effective territorial control. Further, it brought Africans into the cash economy where they began to supply their labour to farms and

mines or sell cash crops to pay taxes. In settler economies in Southern Africa, people were dispossessed of their land and moved to semi-arid and unproductive lands. In these labour reserves, Africans had few ways to earn a living but to work for wages.

The colonial state also took advantage of other invisible "taxes", paid in non-cash ways. The corvée labour system was the most common form of unpaid, forced labour, usually meant for public works such as railway or road construction. In other cases, such as in Nigeria, incarcerated subjects were deliberately used for colonial labour needs and people could be deployed in different colonial projects once they received the "prisoner" tag. Depending on labour needs, the colonial state could arbitrarily arrest and imprison people, and send them to work on various projects. Because the value of forced labour systems, for example, corvée labour, was not recognised as a government income, the tax revenues underestimated the total resources raised by the colonial states. If tax revenues were needed for road construction, getting people to work directly on the roads was also a means of taxing.

Colonialism was not uniform across Africa, but two broad forms of taxation emerged. Some taxes such as hut taxes were "*native*" in that they were imposed on Africans. Others such as income tax were "*modern*" in that they marked a high degree of control and coordination of national resources by centralised state authorities and were meant to apply to all citizens (Africans and settlers) equally to redistribute services to all citizens. Table 2 below displays some key attributes and differences between the two types of taxes.

Table 2: Differences between native and modern taxes

Attributes	**Native taxes** *(colonial)*	**Modern taxes** *(colonial and post-colonial)*
Tax authority	Colonial governments	Colonial and national governments
Taxpayer	Indigenes	All Citizens
Non-compliance measures	Imprisonment, forced labour, cattle seizure, burning of huts etc.	Fines, penalties and legal action
Purpose	Support native administration and colonial governments	Support colonial and post-colonial governments
Format of taxes	Cash, goods, labour etc.	Cash and direct transfers
Examples	Corvée labour, hut tax, poll tax, prison labour etc.	Income tax, sales tax, trade tax, value-added tax (VAT) etc.)

The table shows the dual character of the colonial period. Africans paid both native and modern taxes, while the settlers only paid modern taxes. Some of the native taxes were purely for the so-called native administration, meaning that the money raised was paid for the colonial

administration of Africans. When this was sufficiently covered, the native taxes also served to fund colonial governments´ other needs. Because the colonial governments could not rely solely on modern taxes paid by the enclave of settlers in business and formal employment, the tax base had to be expanded to Africans resulting in unique native taxes such as the hut tax.

3. Colonialism and taxation

To understand why developing countries today tax very little, we must put the lower tax levels into a historical perspective. The colonial (historical) context is important given that consolidating tax systems takes a long time. This section discusses colonial and post-colonial taxation in practice, including discussing general tax revenue patterns and political taxation.

Pre-colonial taxation

Taxation history inevitably touches on the origins of states themselves. From the foraging stages of human development, groups emerged, and humans became territorial. Those with more resources could mobilise better armies and wage wars on neighbours, absorbing them and forming even greater and more organised autonomous units or kingdoms. Thereby becoming proto-states. The main argument in the origins of states is that wars made states, and the ability to tax meant that well-resourced states emerged victorious. Continuous warfare led to an increased need for more revenues, which led to the establishment of tax institutions that were strengthened over time to repay war debts.

In the pre-colonial period, African countries were organised in communities that ranged from villages under village heads to powerful kingdoms constituted by people of various ethnicities under one king/chief in different forms of traditional political administration system. Tribute was a transfer of commodities and services to chiefs and a popular way to raise taxes. It usually consisted of harvested grains or domesticated animals, but chiefs could also get their land worked on by their subjects. The monetisation of the African economies came mostly through the colonial system. Power centralisation and tribute were a form of political organisation that allowed traditional leaders to provide public goods such as traditional courts, and protect the lives, crops, and businesses of those under them.

It is important to note that pre-colonial taxation in Africa was already partly shaped by the European presence in the form of trade and later slavery, which amplified raids and gun ownership in many slave-sending regions. While the pre-colonial taxation system might have had its problems, there is a consensus that tax institutions under the chieftaincy system were usually egalitarian and communal. Colonialism brought alterations, mainly through the new roles given to chiefs and the creation of new chiefs where none had existed before. For example, the acephalous

territories of Ghana had to be given new paramount chiefs, creating seeds of chieftaincy conflict that continue to partly affect Ghana today.

Colonialism and taxation

Colonial African states enjoyed metropolitan backing, especially on territorial defence. This implies that their fiscal strength remained attached to the metropole and gave them a unique identity of being simultaneously weak and strong. If their revenue was insufficient, they could get financial support from the metropoles, especially during wars and conflicts. Still, the colonial states were compelled to raise taxes to avoid burdening taxpayers in the metropoles. While chartered companies were partly used to outsource the cost of empire-building in Africa, the self-sufficiency goal gave them limited success as they could not reconcile the costs of governing territories with making profits. The push for colonial self-sufficiency was prevalent in both the British and French colonies and meant that they had to tax effectively. Many Africans today believe they owe their colonisers for public infrastructure (roads, bridges, railway lines etc.), but they partly financed most of these infrastructure projects through taxes and forced labour.

What and who was taxed, and why, matters for the colonial state, which treated the settlers and the colonised differently. One element that absorbed the collected tax revenue was the huge public wage bill because the colonial officers were paid very high salaries. Africans were thus forced to foot the bill that perpetuated their subjugation. Across Africa, European settlements existed with varying degrees of proportion, but colonialism was, in many ways, a black man's burden in the context of white minority rule. Some colonies had relatively larger numbers of European settlers, for example, South Africa that experienced white minority rule up to 1994. Other British colonies pursued indirect rule while the French opted for a direct rule with administration orders from Paris. However, the revenue needs caused the same coercive mechanism in the settler colonies and those with indirect/direct rule alike, and tax laws were often ruthless when the taxpayers were Africans.

Colonial forms of taxation sparked resistance by Africans, especially where traditional leaders such as chiefs were recruited and used ruthless means in tax collection. To those who did not pay, harsh measures were taken. Sometimes their cattle were confiscated, and sometimes huts were burnt. Those who failed to pay taxes were forced to cultivate the chief's land, something that had not existed before colonial times. In Nigeria, for instance, the pre-colonial tradition was that widows were exempt from taxes. The colonial authorities changed this and taxed widows, resulting in the largest colonial disruption in West Africa. This is known as the Aba Women's Riots of 1929. Other examples of tax-related revolts include the Gun war in Basutoland (Lesotho) (1880), the "Hut tax war" in Sierra Leone (1898), the Bambatha rebellion in Natal (South Africa) (1905), and Mau Mau in Kenya (1952). These revolts show how the legitimacy of the colonial state remained very fragile around taxation.

The tax base was also crucial for the colonial period. The colonial economies were essentially limited to mining, farming, and trade. The tax handles were limited and largely dictated what could be taxed. There were some strategies the colonisers brought from the metropoles, but the local conditions largely dictated the outcome of taxation and state formation. Whatever tax strategy could balance the colonial budgets with minimal protests was adopted. For example, while the hut tax became popular in most African colonial states, in French Muslim countries, the traditional Muslim *zekat* tax was also adopted and became important in a few countries. In Mauritania, it was the most important direct tax. The dominance of trade as the main wealth-generating activity meant that it was the biggest aspect of the tax base, especially in coastal regions that were major trading hubs. Meanwhile, hinterland colonies had to rely more on other direct taxes. In West Africa, a booming trade in cocoa and palm products was a notable source of tax revenue, except where significantly elite power existed. Also in mineral-rich economies resistance by the economic and political elites could reduce heavy taxes on mineral extraction.

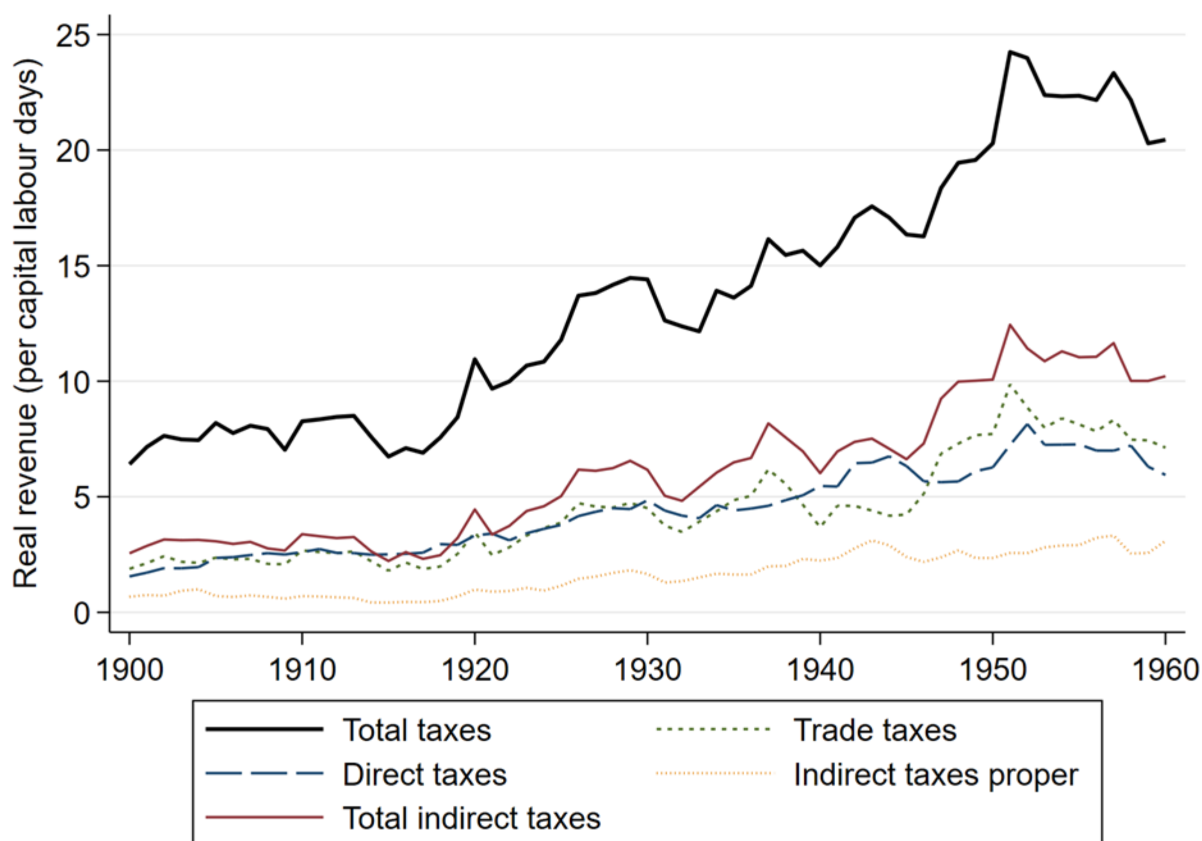
Another extractive feature of colonial tax systems was that they were collected from people who did not always benefit from colonial government services. For example, the creation of grain marketing boards and monopolies introduced low producer prices for African farmers and in practice, these controls and market fees constituted hidden taxes for many African farmers. Meanwhile, where the settlers could, they made sure to pay minimal taxes, and in proportion to their higher incomes, they tended to get away with lower taxes than the indigenous people. Therefore, one should be careful of overall total tax revenue measures, such as per capita revenues, for the colonial era because they mask important differences regarding who bore the heavier tax burden between the settlers and the indigenous people (Gwaindepi 2022).

In tracing what various taxes brought to colonial governments, I begin with a snapshot of colonial taxation in Figure 2 below. As it is impossible to do justice to every African country, and I focus on 46 African countries' general patterns of the main categories of tax revenues and pay attention to some unique country experiences. The vertical axis shows the real tax collected expressed in terms of how many days an unskilled worker in an urban area needed to work to pay their yearly taxes. Countries or colonies more effective in tax collection would collect the value of more labour days than those with low taxing capacity. Further details of the countries and dataset are explained in Albers *et al*. (2022), but here I only show the period up to 1960, the modal year of African independence.

This tax data has limitations in that it potentially misses in-kind taxes such as prison and forced labour, but it still shows important dimensions of classifications and major sources of tax revenue. While total taxes are the sum of direct and indirect taxes, indirect taxes are disaggregated into trade taxes and *indirect taxes,* which exclude trade taxes. Three observations can be made. First, progress was modest when considering tax revenue collection during the colonial period. This was partly why non-tax means of extraction were adopted to finance the African colonial states. Second, before the 1960s, trade taxes largely constituted the indirect tax category since indirect

taxes remained low. Indeed, the 1950s tax data shows that trade taxes positively correlated with total tax revenues. Countries gained higher total tax revenues because trading was the main tax base, and as more trade happened, more trade taxes could be raised. Trade volumes also widened the tax base by enabling tax collection in other categories such as income tax. Thus, the international economic environment, directly and indirectly, affected taxation. Third, from decolonisation in the 1950s, there is evidence of tax revenue slowing down, to which we turn to in the next section.

Figure 2: The colonial revenues trends and patterns (1900-1960)



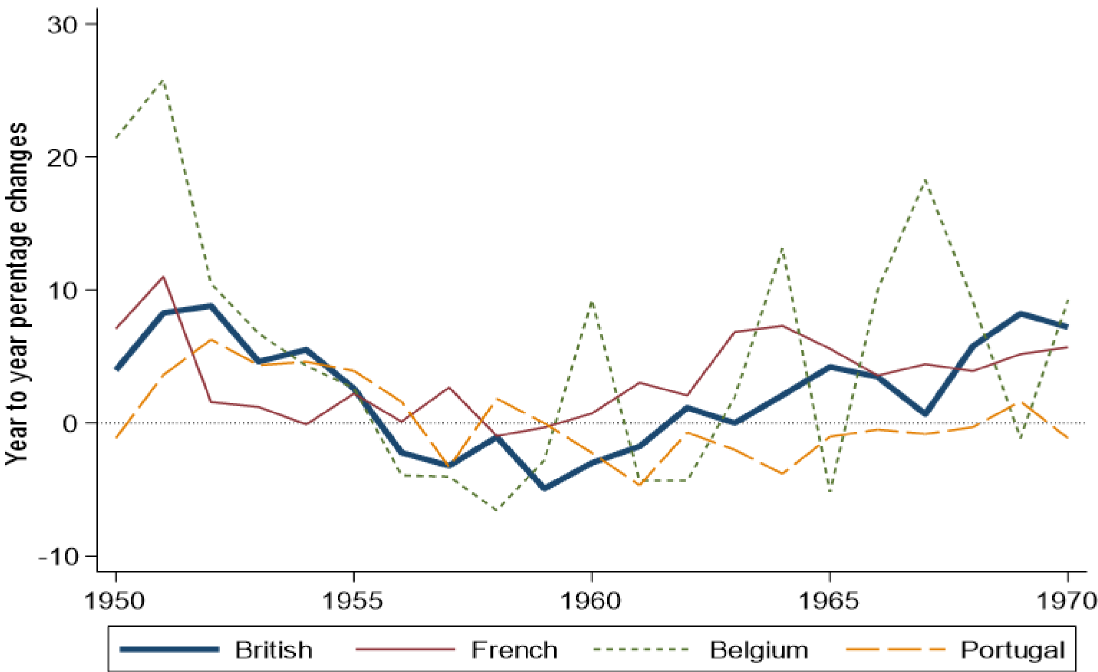
Source: Computed with data from Albers et al. (2022).

4. Decolonisation and post-independence taxation

Most African countries gained independence in the decade between 1950 and 1970. When considering the periods of slow growth in taxation since 1900, the decolonisation period is a critical phase because it marked the birth of most of the sovereign African states as they are known today. We will thus take a closer look at the period 1950-1970 to explore changes and continuities in fiscal regimes. The exit of imperial powers had ramifications for taxation since the tax

authorities had to change, and some major economic activities were disrupted. Colonial tax bureaucracy gave way to new tax authorities, and some native taxes were removed as some of them, such as the hut tax, were associated with colonial oppression. Figure 3 shows average total tax revenue patterns during the decolonisation decades, focusing on year-to-year percentage changes in total tax revenues in the British, French, Belgian and Portuguese colonies.

Figure 3: Changes in tax revenues during the decolonisation decades (1950-1970)

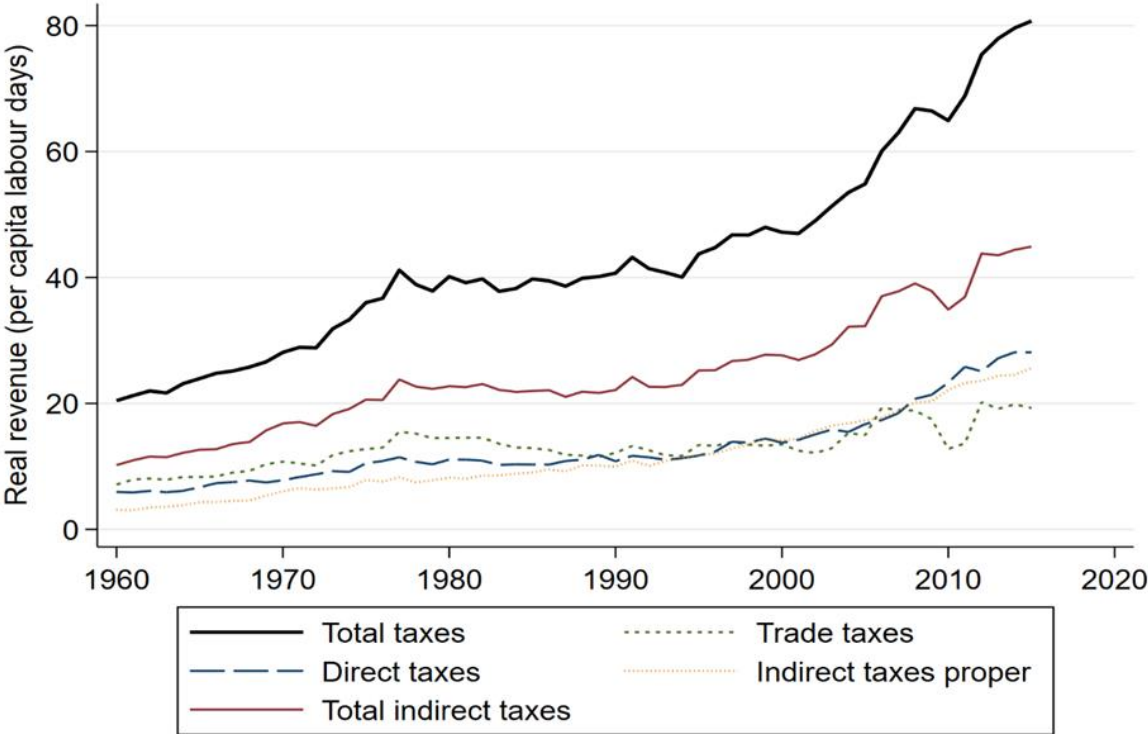


Source: Computed with data from Albers et al. (2022).

Clearly, the decolonisation decades experienced slow growth in tax revenues and even decline, as shown from around 1955 when year-to-year changes became negative (below the horizontal line at zero). As for the Belgian colonies (e.g. the Democratic Republic of Congo, Rwanda, and Burundi), they were highly unstable. In 1960-65, the political crisis after the Belgian exit from Congo was particularly detrimental to tax revenue collection, as shown in the up-and-down swings. Meanwhile, across the British colonies (e.g. Kenya, Ghana, and Nigeria) and French territories (e.g. Guinea, Cameroon, and Burkina Faso), decolonisation also slowed tax revenue collection, but in a relatively more stable way compared to the Belgian colonies. Finally, in the Portuguese colonies (e.g., Mozambique, Angola, and Guinea-Bissau), the long wars of independence were underway in this period, and tax revenues were accordingly consistently negative. Generally, decolonisation brought uncertainties that caused people to relocate and some businesses to close or move their investments to safer countries. Also, it meant that state-building became minimal as colonial governments anticipated imminent independence.

Moving on, Figure 4 shows the tax revenue patterns in the post-independence period from 1960 onwards. As in Figure 2, total taxes are the sum of direct and indirect taxes, but indirect taxes are also disaggregated into trade taxes and indirect taxes, excluding trade taxes.

Figure 4: The post-colonial revenue trends and patterns (1960-2015)



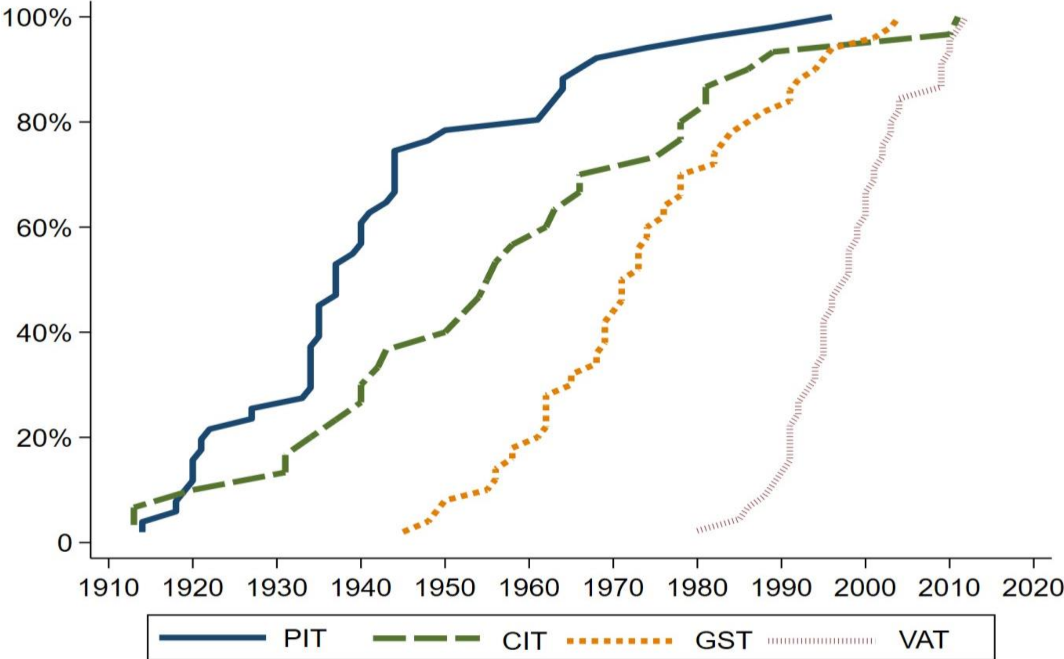
Source: Computed with data from Albers et al. (2022).

The main trend is that between the 1980s and ca 2000, real revenue growth in African countries mostly remained stagnant. Several factors contributed such as political instability due to coups, civil wars, and the general market-driven policies which reduced the role of governments from the 1980s. One major area affected was trade tariffs. While trade taxes dominated the indirect tax category during the colonial period (see Figure 2), the 1980s and 1990s were an the era of increased free trade influenced by organizations like the World Trade Organization (WTO), when trade taxes were gradually eliminated as they were considered detrimental to trade. This posed a challenge for many African nations heavily reliant on trade taxes. The solution was to begin tax reforms that emphasised taxes on local economic activities more than international trade, leading to the growth of inland indirect taxes, such as VAT.

Facing the slow growth in tax revenues, countries continuously evaluate untaxed economic activities that can potentially contribute to more tax revenues. This is how modern taxes were introduced in the colonial period. The need to introduce new tax types became even more pronounced in the post-colonial era when the native taxes were gradually abolished. With diffusion

and demonstration effect, there has been a strong convergence across African countries in the adoption of modern taxes. Figure 5 below shows four prominent modern taxes – personal income tax (PIT), corporate income tax (CIT), general sales tax (GST), and value-added tax (VAT). It shows when they were introduced and how quickly they were adopted by other countries across the continent. Importantly, only tax introductions that coincide with well-run tax systems can bring the maximum possible revenues. Outcomes of tax reforms vary between African countries because an efficient tax system gets more revenues from a new tax than a poorly managed one.

Figure 5: Percentages of countries adopting different taxes



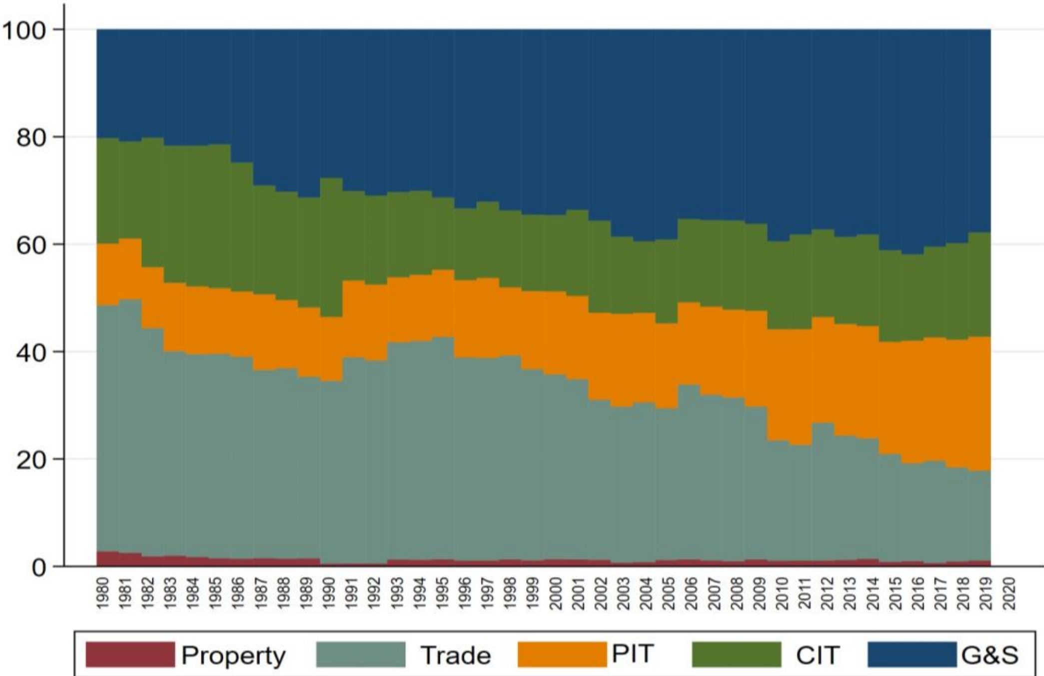
Source: Computed with data from Seelkopf et al. (2021).
Note: PIT is personal income tax; CIT is corporate income tax; G&S is a tax on goods and services and VAT is value-added tax.

The vertical axis shows percentages of African countries adopting these modern taxes over time. When one country adopts a tax and realises more revenue, neighbouring countries tend to follow until that tax is imposed in all countries. On the horizontal axis, we see the time of introduction of the four types of taxes. The first three – PIT, CIT, and GST – were introduced during colonial times and notably took several years to spread to more countries. The revenue-yield principle posits that raising the maximum possible revenues is more important than what type of tax is introduced. However, the introduction of these modern taxes the colonial times was often disappointing because the tax bases were limited to niches such as mining, plantation, foreign companies, and harbours. Even in the postcolonial era, the quick adoption of modern taxes did not eliminate problems around the administrative capacity to collect. Meanwhile, VAT was introduced in the post-colonial period, mostly from the 1980s onwards, and was adopted rapidly by all

countries, as shown by the steep VAT line. Because many citizens pay it, VAT is more broad-based than other taxes, such as income taxes. For instance, due to lower salaries or unemployment, many people do not pay income tax, but they still consume goods and services on which VAT is collected.

Figure 6 is a complement to Figure 5 and shows which of the main modern taxes brought more revenue in the postcolonial period. Since 1980, tax on goods and services (G&S), composed of sales taxes, VAT, and excises, has become the biggest revenue earner. VAT is the biggest in this category. Trade taxes have declined in importance, but remain considerable. Direct taxes such as personal income taxes (PIT) and corporate income taxes (CIT) are growing slowly, igniting debates on whether governments should tax high-net-worth individuals and corporations more. These direct taxes are regarded as difficult to collect in developing countries with administrative deficiencies in monitoring and assessing incomes. Yet, most efficient tax systems in the world rely on direct taxes, such as income taxes, which tend to be more stable than indirect taxes. Finally, property taxes remain very low in Africa and constitute an untapped revenue source. Property is complex because land assets remain under communal ownership regimes lacking title or registration that can be used as a basis for taxation.

Figure 6: Main taxes in Sub-Saharan Africa since the 1980s



Source: Computed with data from UNU-WIDER (2021). PIT is personal income tax; CIT is corporate income tax; G&S is a tax on goods and services.

5. Some remaining challenges for taxation in Africa

This final section concludes by highlighting some of the key remaining challenges for taxation in Africa. First, it focuses on informality and how it constrains tax revenue collection. Second, it discusses the challenges in managing large taxpayers in the form of multinationals and high net-worth individuals with considerable political sway on governments. Third, it highlights the inequality that is inherent in the tax system. Finally, it discusses accountability deficiencies that reduce tax morale.

The first challenge is that many low-income African countries do not know the tax base fully. Many economic activities occur informally, and governments do not know their citizens' incomes and who earns enough to pay taxes. Formally registered companies give their yearly income statements for corporate income taxes, and they collect income tax from their employees and send it to the tax authorities. However the economic activities of unregistered companies are not known to the tax authorities, and it is hard for governments to tax those working and doing business informally. The more informal an economy is, the less tax revenues the government can collect because only a few economic activities can formally be traced. Estimates vary, but some countries have up to 80 percent of their population working informally.

One solution to deal with informality has been to assume how much money people make by looking at their business activities. These kinds of taxes, called *presumptive taxes*, are typically imposed on a presumptive basis, meaning that they are based on guessed estimates of income rather than on actual income data. The amount of presumptive tax owed is usually calculated based on various observable indicators such as the number of employees, business turnover and size of premises, or carrying capacity for those operating minibuses and taxi businesses. For example, a seven-seater minibus is charged a lower presumptive tax per year than an 18-seater.

A second challenge is managing the so-called large taxpayers, such as high net-worth individuals and international corporations mostly operating in extractive industries such as mining. Despite the creation of large taxpayer units within national treasuries, high-net-worth individuals and big corporates have enormous bargaining power. Governments are often pressured to negotiate with these companies, creating room for tax exemptions that reduce tax revenues. A recent trend shows that personal income taxes bring more revenue in many countries than corporate income taxes (see Figure 6). This implies that companies contribute lower tax revenues than individuals despite high profit margins. Big firms and corporations often have considerable political sway over ministers and presidents and stifle meaningful tax reform. This often gets entrenched when the leading politicians have shares in such firms. The elite circles of leaders of big firms and politically connected business tycoons often constitute a strong barrier to tax reform at the local and central government levels. Tax fraud and corruption, including moving money to countries with low tax rates (tax havens) also thrive in such environments.

The third challenge is the inherent inequality that prevails in the tax system where the poor carry heavier tax burdens than the rich. The first dimension of this is that the very tax laws themselves are designed in an inequitable way. This partly emanates from the colonial tax systems that were dualistic and more punitive to Africans by not assessing taxable capacity, intentionally and due to administrative challenges. In colonial times the collected tax revenue was spent mostly on the settler enclaves, perpetuating further inequality and dualistic development that left many Africans behind. The second dimension is that tax reforms and solutions to deal with tax evasion often worsen inequality. Technology has partly brought solutions as some taxes are automatically deducted from all mobile phone transactions. Such taxes are called e-taxes/e-levies. While helpful in boosting government revenues, they are not equitable in that they punish those who cannot use other means of transacting than electronic systems. For example, in trying to avoid the e-levies, Zimbabwean informal traders have gone back to using only cash to transact.

Finally, and probably the most pressing issue is the lack of accountability when African governments spend tax revenues. Building the capacity to collect more tax revenue is a noble goal, but what the money is spent on matters for taxpayers. Fiscal capacity building must be done together with the will to deliver public goods and services. Taxpayers are demoralised when they cannot see any benefit in paying taxes. The state can win the taxpayers' willingness to contribute by demonstrating that the raised tax revenue is used well. This is why the phrase "no taxation without representation", though American in origins, resonates with the African taxpayers. Tax morale (perceptions and attitudes towards paying taxes) is generally low in African countries where taxpayers cannot see the benefits of their taxes. Linking tax revenues to expenditures transparently is necessary for states to gain the trust of the taxpayers. When this is done well, it allows governments to achieve redistribute tax revenue (especially income taxes) via spending policies that help to reduce inequality. Service delivery and paying attention to the needs of the taxpayers are thus part and parcel of durable and effective tax systems.

Study questions

1. What were the different objectives pursued by colonial governments in their tax policies?
2. The tax revenues collected in colonial times underestimated resource extraction by colonial governments. Explain why this is so using other ways the colonial state "taxed" Africans.
3. Some taxes survived the end of colonialism and became important modern taxes. Identify some of these and explain why they remain to date.
4. Identify and explain some challenges that remain on taxation in Africa.
5. One of the assertions of this chapter is that the colonial state was not really "African". Explain why you agree or disagree with this view using a taxation lens.

Suggested readings

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